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Savills World Research
China

Asian Cities Report
Qingdao Office

2H 2015

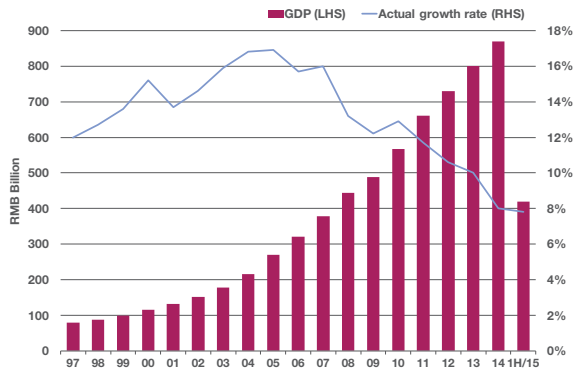
MAP 1

Major business districts, 2015

Source: Savills Research & Consultancy

GRAPH 1

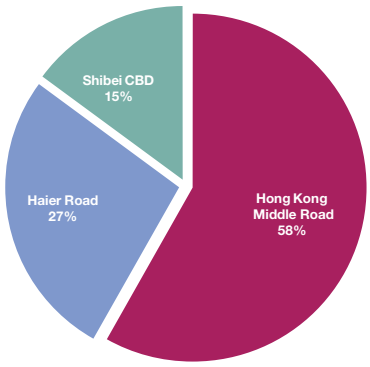
GDP and GDP growth rate, 1997–1H/2015



Source: Qingdao Statistics Bureau, Savills Research & Consultancy

GRAPH 2

Stock distribution, 1H/2015



Source: Savills Research & Consultancy

City overview

One of the world's busiest seaports, the eastern coastal city of Qingdao is one of the most active second-tier cities in northern China. After being one of the first cities to open up in China, Qingdao ranked 14th in the 2014 China Top 100 Foreign Trade Cities list, and has become a first-choice city for the multinational corporations entering the Shandong Province market. Additionally, Qingdao West Coast New Area became the ninth economic area appointed nationally in 2014.

Qingdao's GDP expanded 7.8% in 1H/2015, and, much like several other cities in China, GDP growth is stable. This can be attributed to the gradual shift from traditional manufacturing industries to high-tech industries, focusing on transportation equipment manufacturing and new energy industries. Meanwhile, the financial sector grew 10.7% year-on-year (YoY) in 1H/2015, 2.9 percentage points (ppts) higher than GDP growth, which has resulted in buoyant leasing demand.

Grade A office market overview

Qingdao's Grade A office market took off after 2000, to meet the demand for high-quality office space from finance, transport and logistics companies. The development of Qingdao's office market has improved since Olympic Games in 2008, with more high-quality projects being launched onto the market. The first area to receive a Grade A office project was Hong Kong Middle Road area, with Haier Road area coming second. Shibei CBD welcomed its first batch of Grade A office supply in 2012, and has now become the third business district in Qingdao.

Hong Kong Middle Road

As the prime business district, Hong Kong Middle Road area is also the largest submarket, accounting for 58% of total stock. This area attracts a number of financial and professional services companies and continues to command the highest rents and occupancy rates in the city. Offering a mature business environment, developed infrastructure and higher-quality projects, the area will continue to hold a premium above other areas.

Shibei CBD

Shibei CBD area, an emerging business district planned by the government, saw no new supply in the first half of 2015. As the area's business atmosphere gradually matures, vacancy rates, although still high, continued to witness a downward trend. The area is forecasted to see growing supply in the coming years. This, combined with an already high level of existing stock, has placed landlords under pressure to offer rental incentives to retain and attract quality tenants.

Haier Road

The majority of projects in the Haier Road area entered the market prior to 2012, meaning the projects are now generally of lower quality and offer comparatively outdated facilities. This, combined with a large concentration of technology and manufacturing companies in the area, has curbed rental growth levels and placed landlords under pressure to not increase rents, which is reflected in the stable rents of the area. While occupancy rates of the most recently launched projects in the area are improving, overall vacancy rates still remain high.

Stock supply & demand

One new Grade A office building, the China Resources Building developed by China Resources Land, was handed over to the market, adding 58,000 sq m of new supply and pushing Grade A office stock up to around 1.53 million sq m by the end of 1H/2015.

The China Resources Building is part of the large-scale development project, Qingdao City Crossing. Located in Hong Kong Middle Road area, the project comprises residential, office, hotel and retail components. The China Resources Building, which represents the office component, was launched on to the market in late-May 2015. Boasting one of the highest standards of office building quality in the Qingdao market, the project has been able

to attract quality tenants such as Alibaba. However, due to the fierce competition among landlords in this area, the project's occupancy rate has not yet reached the level of those in surrounding established projects.

Despite new supply, net take-up decreased to 26,000 sq m in the first half of 2015, less than half the amount recorded in 2H/2014. The decline of net take-up was largely attributable to the slowing economy, which sharply curbed leasing transaction levels in the market during the period. Low pre-commitment rates in the new supply put pressure on city-wide vacancy rates, up 1.5 ppts half-on-half (HoH) to 19.3%, an increase of 2.0% YoY.

Financial and professional services companies continued to be the demand drivers of the period.

Rents

City-wide Grade A office rents largely stabilised at an average of RMB102.8 per sq m per month, up 1.4% YoY.

The Qingdao office market has received a large influx of supply during the past three years; however, sluggish demand has created challenges in absorbing stock. As a result, Grade A office rental growth has been constrained to a compound annual growth rate (CAGR) of just 2.1% since 1H/2012.

Hong Kong Middle Road rents remained relatively stable, at RMB118.8 per sq m per month. However, this is still 50.2% and 41.8% higher than Haier Road and Shibei CBD areas, respectively. With no new projects entering the market, Haier Road and Shibei CBD rents stood at an average of RMB79.1 and RMB83.8 per sq m per month in1H/2015, respectively.

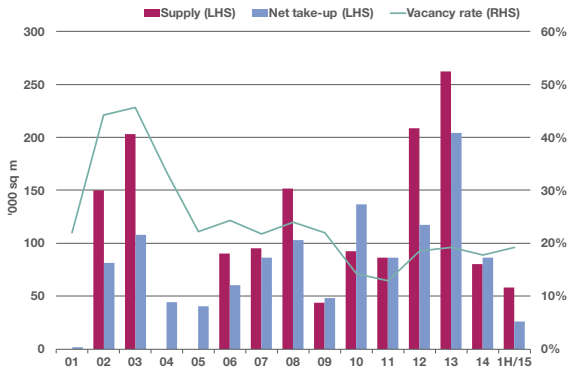
Outlook

Five Grade A office projects are scheduled to be handed over to the market in the second half of 2015, adding a total office GFA of 250,000 sq m and enlarging city-wide stock by 16%, to 1.78 million sq m. New Grade A office supply in the second half of 2015 will be distributed throughout all of Qingdao's office markets. Haier Road and Shibei CBD areas are expected to receive 84% of the new supply, further driving maturity in these locations.

Despite robust demand, the influx of new supply scheduled to be launched onto the market in 2H/2015 is expected to encounter absorption challenges. As a result, it is likely vacancy rates will increase slightly in the short term. The higher vacancy rates are expected to place landlords under pressure, which will result in rental discounts being offered as they compete for tenants.

GRAPH 3

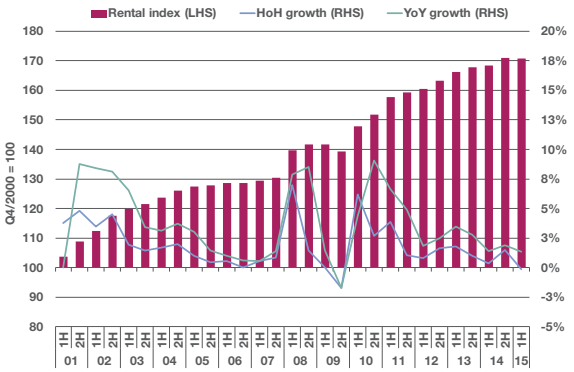
Supply, take-up and vacancy rates, 2001–1H/2015



Source: Savills Research & Consultancy

GRAPH 4

Grade A office rental index, 1H/2001–1H/2015



Source: Savills Research & Consultancy

TABLE 1

Future supply, 2H/2015

Project	Submarket	Office GFA (sq m)
Kaijing Building (凯景大厦)	Shibei CBD	28,000
Ginza Centre (银座中心)	Hong Kong Middle Road	40,000
Yongxin International Centre (永新国际广场)	Haier Road	45,000
White Gold Plaza (白金广场)	Haier Road	55,000
Fortune Zone (青房财富地带)	Shibei CBD	80,000

Source: Savills Research & Consultancy

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